



November 5, 2012

Mayor Noon and Members of City Council:

I am pleased to submit for your consideration the 2012 Revised and 2013 Annual Budgets. Each Fund in the 2012 Revised and 2013 Annual Budgets is balanced, as required by the Centennial Home Rule Charter and the Colorado Local Government Budget Law.

This document constitutes the legal authority of the City to appropriate and expend public funds. It also serves as a communications and operations guide for the City by detailing service levels, projects, and programs that are in line with policy direction from City Council. The focus of this document is the continual improvement upon the City's goal of operating as effectively and efficiently as possible.

#### **The 2012 Revised / 2013 Annual Budgets Process**

The budget process is an ongoing effort of strategic planning, monitoring of revenues and expenditures, Budget Committee review, and Council allocation of resources that concludes with Council's adoption of the current year revised and upcoming year budgets. This process matches desired service levels and anticipated expenditures with projected revenues.

Throughout the year, Staff monitors expenditures and revenues to identify needed amendments or changes from the adopted budget. We work with Council through workshops, supplemental budget appropriations, policy dialogues, and Budget Committee meetings to provide the City opportunities to revise the adopted budget as the need arises.

#### **Strategic Planning**

The 2012 Revised / 2013 Annual Budgets reflect priorities articulated at the January and April strategic and budget planning workshops. Council priorities developed at the workshops and considered in the 2012 Revised / 2013 Annual Budgets include:

- Increased service levels through process efficiencies, unanticipated revenues, and audit results,
- Development of a special events program at Centennial Center Park,
- A ballot question to exempt all existing and future City revenues from TABOR requirements, and
- Changes in the compensation and benefits structure for full- and part-time City employees.

Sales tax, use tax, and property tax revenues were previously and permanently exempted from TABOR limitations by voters in 2001. All other sources of revenue were temporarily exempted by voters in 2006 – an exemption that will sunset in 2013. As a result, Council voted to refer a TABOR issue to voters for the November 6<sup>th</sup>, 2012 election, requesting approval to permanently exempt all existing and future

revenues (excluding revenues permanently exempted in 2001) from the revenue and spending limitations. The result of this ballot question is anticipated to impact City revenues in future budget years.

Without voter approval to make this exemption permanent, the exemption sunset would require the City to once again include revenues such as, franchise fees, specific ownership tax, motor vehicle registration fees, HUTF/FASTER funding, and Arapahoe County Open Space funding, amongst others, back under the revenue and spending limitations. Several of the aforementioned funding sources are restricted for a particular use; therefore, these revenues are generally not authorized for use on TABOR-required refunds. Even if these restricted revenues triggered the requirements of a TABOR refund, funding would have to come from the General Fund. The General Fund is the primary source of funding for Law Enforcement, Public Works, and street maintenance and improvements, potentially impacting the City's ability to provide these services at current levels.

In addition to the Council strategic priorities included in this document, I have worked and will continue to work with Staff and Council on examining and improving our core competencies and business programs. The City's core services remain intact, albeit with a renewed focus on innovation and customer service. Certain positions have been eliminated or re-classified through a strategic reduction in force. The responsibilities of the eliminated positions will be fulfilled through current staff or through the use of contracted resources.

#### Centennial Budget Committee

The Centennial Budget Committee (CBC) is comprised of the Mayor, one Councilmember, three citizen representatives, the City Manager, and the Finance Director. The CBC convenes several times during the year to review the City's finances, revenue projections, departmental budget variances, and proposed decision packages for the current and upcoming years. As a result of these meetings, the CBC provides recommendations to Council. Recommendations provided by the CBC at the September budget workshop included:

- Examine service levels provided under the 2012 Revised / 2013 Annual Budgets, and determine whether these service levels are satisfactory and appropriate,
- Further consider cooperative purchasing with other municipalities for certain materials and services,
- Consider compensation and benefits offered to City Staff as a comprehensive package rather than piecemeal components when evaluating changes to employee compensation, and
- Examine proposed capital projects and determine if the prioritization is appropriate given the costs and potential benefits.

#### Decision Packages

In September, the City Manager's Proposed Budgets were presented with decision packages for Council consideration and reflected the results of the strategic planning process, operational adjustments suggested by Staff, and contract-required changes. Council provided concurrence on the inclusion of the following major items in the 2012 Revised / 2013 Annual Budgets, among others.

*General Fund:*

- Economic Development business improvement placeholder,
- Additional funding to enhance community events,
- Merit-based raises for Staff,
- Funding for potential changes to the Public Works contract, as well as a transition contingency,
- Evaluation of the potential acquisition of the City's street light system,
- Maintenance of the current level of service from the City's law enforcement provider, Arapahoe County Sheriff's Office, and

*Open Space Fund:*

- Lone Tree Creek Trail, connecting Centennial Center Park with Cherry Creek State Park,
- Phase III of the Centennial Link Trail,
- Various neighborhood trail connections, and
- Various neighborhood park improvements, City-wide.

*Conservation Trust Fund:*

- Potomac Site improvements,
- Potential City-wide acquisition or improvements to regional parks and open space, and
- Ongoing maintenance of the Centennial Center Park and the Potomac site.

**The 2012 Revised / 2013 Annual Budgets**

**2012 Revenues**

Revenues have been revised to \$75.7 million, an increase of \$13.9 million (22.6 percent) overall from the 2012 Adopted Budget. This increase is largely due to better-than-anticipated sales tax revenue and additional federal, state, and local grant revenue. The City also received higher-than-projected revenues from franchise fees, property taxes, and the highway users tax fund.

**2012 Expenditures**

Expenditures have been revised to \$84.6 million, an increase of \$20.8 million (32.6 percent) from the 2012 Adopted Budget. While this increase seems significant, it is important to consider that the budget has remained balanced. The increase is largely due to appropriated capital improvement funds (\$16.2 million, or 77.9 percent of the increase) and culture & recreation funds (\$3.7 million or 17.8 percent of the increase). The increase in the capital improvement budget is due to projects carried forward from 2011, significant increases in the major project capital reserve and street rehabilitation programs, purchase of a public works facility and grant-funded projects.

**2013 Revenues**

Revenues are expected to increase \$8.2 million (13.3 percent) from the 2012 Adopted Budget. Sales tax revenues have trended upwards, largely due to the increased sales at The Streets at SouthGlenn, Centennial Promenade, and IKEA, as well as sales tax compliance and vendor licensing efforts.

Additional business development efforts in 2013 should further strengthen sales tax revenues. Slight decreases were seen in Municipal Court revenues, among others. No increases in tax rates were proposed or adopted during this budget cycle.

#### 2013 Expenditures

2013 expenditures increased \$6.4 million (10.0 percent) from the 2012 Adopted Budget. The primary increases in expenditures are due to contractual obligations for Public Works services, capital improvement projects, and incentive agreements for public improvements. Certain changes, discussed above as decision packages, also affect expenditures. Further detail for expenditure changes is provided in the Executive Summary section of this document.

#### Staffing and Benefits

There are significant staffing changes included in the 2013 Annual Budget. The City implemented a strategic reduction in force, reducing the net number of full-time equivalent (FTEs) positions from 58.0 (FY2012 Adopted Budget) to 50.75 (FY2012 Revised / 2013 Annual Budgets). The reduction in force was the result of a thorough analysis by my executive team of the City's core competencies, business strategies, and the role of each position in the organization. Affected functions include Facilities, Information Technology, Engineering, and Community Development. As a result, organizational changes were implemented, including consolidating and reclassifying certain functions, and contracting others to external providers.

For additional information regarding staffing changes, please see the Organizational Chart (page 7) and the Staff Resources Summary by Position chart (pages 288-290), both in this document.

As the result of an analysis conducted earlier this year, certain changes to employee compensation and benefits are included in these budgets. These changes include the implementation of a market-competitive merit-based compensation plan and implementation of a paid-time-off (PTO) program. The City found that its salary schedule and position classifications are generally competitive across the region. Future salary increases will be contingent upon performance. PTO is designed to replace sick and vacation leave, and implementing PTO is consistent with the City's desire to remain a competitive employer.

#### Capital Improvement Projects

In addition to the changes in operating expenditures highlighted above, I would like to bring attention to several major capital projects included in the 2012 Revised / 2013 Annual Budgets.

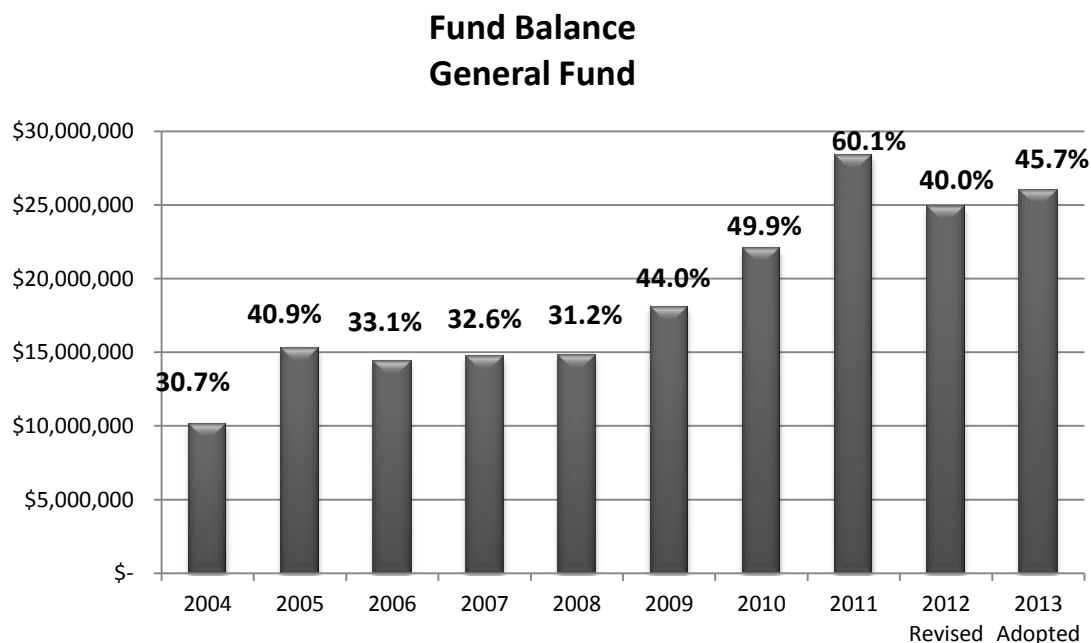
- *Street Rehabilitation Program:* Council has increased funding for the concrete replacement, street rehabilitation, and street surface treatment programs for both the 2012 Revised and 2013 Annual Budgets. This increase is needed in order to maintain the City's streets at the best possible condition.
- *Purchase of Public Works Facility:* Council approve the acquisition of property located at 7272 S. Eagle Street consisting of 9.12 fully improved acres with three existing structures totaling more than 38 thousand square feet. This acquisition has offsetting contractual obligations and is believed to be an excellent way to manage long term public works facility costs.

- *Peoria Reconstruction & Intersection Improvements:* The reconstruction of the Peakview Avenue and Peoria Street intersection includes a roundabout which will improve traffic flow, significant drainage improvements, and the reconstruction of the road surface.
- *County Line Road Improvements:* Includes street paving and improvements along portions of County Line Road, in partnership with the City of Lone Tree.
- *Neighborhood Traffic Management Program:* Continued funding for the Neighborhood Traffic Management Program, an ongoing City effort to implement appropriate traffic calming strategies in residential neighborhoods.
- *Traffic Signal at Potomac and Briarwood:* This installation of the traffic signal is fully funded through state Hazard Elimination grant funding and a contribution from Dove Valley Metropolitan District.
- *Cherrywood Circle over Big Dry Creek Bridge:* Safety enhancements to the bridge and railing.
- *Major Capital Project Reserve:* Funding set-aside for future major capital projects.

These projects represent the strategic priorities of the City, including improving and maintaining infrastructure, improving safety and quality-of-life within our neighborhoods, and prudent fiscal management for future major capital projects.

#### Fund Balance

A significant part of the fiscal strength of the City is owed to the healthy balances of our Funds. It is the policy of the City to maintain a General Fund fund balance of at least 25 percent of General Fund expenditures and transfers. In the past, we have maintained a fund balance above that amount, and this year is no exception. The 2013 Annual Budget General Fund fund balance has increased by \$1,144,180 (4.6 percent) from the 2012 Revised Budget, for a total of \$26,005,123, or 45.7 percent of the General Fund expenditures and transfers. The General Fund fund balance trend is shown in the chart below:



### **Conclusion**

I would like to extend my thanks to the Mayor and City Councilmembers who worked tirelessly in providing policy direction in the development of this document. I would also like to express my gratitude to the members of the Centennial Budget Committee for volunteering their time to serve the City of Centennial. Finally, my thanks to all the Staff members and City partners who assisted with the development and preparation of the 2012 Revised / 2013 Annual Budgets.

The 2012 Revised / 2013 Annual Budgets reflect the alignment of City operations with the strategic goals of our citizens and the City Council. Staff will continue to examine business strategies and core competencies to ensure the City is managed in the most effective and efficient manner possible.

The success of our City is no accident, and this document reflects the deliberate planning and action that guides our operations. I am pleased to recommend the adoption of the 2012 Revised / 2013 Annual Budgets by the City Council.

Respectfully Submitted,

*John H. Danielson*

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City Manager